ECONOSCOPE

February 2018

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CANADA'S HOUSING MARKET QUIETS DOWN IN JANUARY

RBC

ECONOSCOPE

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IN BRIEF

Highlights This Month

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CURRENT TRENDS

Paul Ferley, Nathan Janzen, Josh Nye

CANADIAN GDP BOUNCED BACK IN NOVEMBER

LATEST AVAILABLE: NOVEMBER

RELEASE DATE: JANUARY 31, 2017

GDP rose 0.4% in November after a surprisingly weak flat reading in October. Nonconventional oil extraction bounced back 3.7% to reverse a 3.4% decline in October that was reportedly the result of transitory maintenance shutdowns. A 1.8% surge in manufacturing output also reflected a retracement of earlier weakness as shutdowns of some motor vehicle and chemical production in earlier months ended. Increases outside of those two components were generally more modest but widespread. Statistics Canada noted 17 of 20 industries posted increases in November. Yes, uncertainties remain about the outcome of NAFTA renegotiations and that could have significant implications in particular for the manufacturing sector that accounted for a big chunk of November's GDP growth. The November GDP gain is consistent with the economy growing at a 1.9% pace (annualized) in Q4— down from the outsized mid-2016 to mid-2017 pace but still above most estimates of the economy's long-run run rate.

HIGHLIGHTS

▲ GDP rose 0.4% in November after a surprisingly weak flat reading in October.

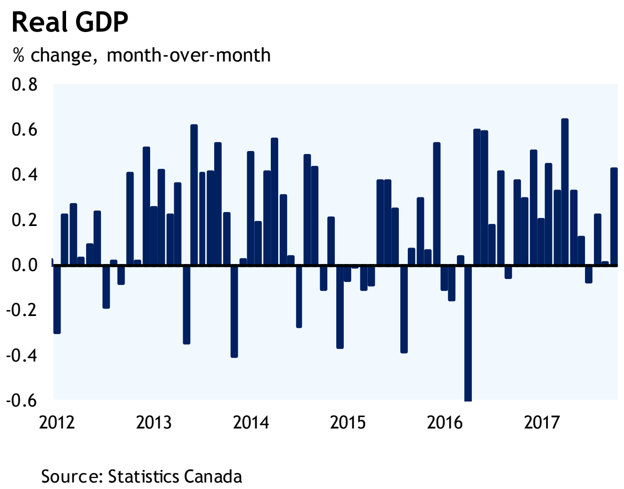
▲ Employment plunged 88k in January, bringing an end to an impressive 17-month long streak of gains — the longest such stretch in 17 years — in what is normally a very volatile measure.

▲ Retail sales inched up 0.2% in November to build on a 1.6% jump in October.

▲ Housing starts came in a bit stronger than expected in January, holding steady at December's revised 216k annualized pace.

▲ Canada's nominal merchandise trade deficit widened to \$3.2 billion in December from \$2.7 billion in November.

▲ Headline CPI growth matched expectations, rising 1.9% from a year ago in December.

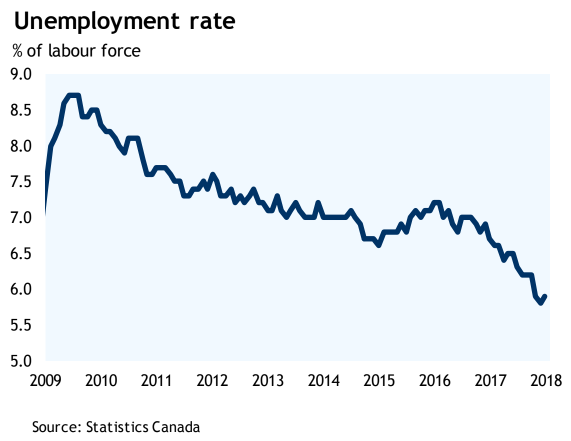


CANADA'S LONG STREAK OF JOB GAINS FINALLY ENDED IN JANUARY

LATEST AVAILABLE: JANUARY

RELEASE DATE: FEBRUARY 9, 2018

Employment plunged 88k in January, bringing an end to an impressive 17-month long streak of gains — the longest such stretch in 17 years — in what is normally a very volatile measure. The monthly drop in headline employment is eye-catching but still only retraced about 60% of the 146 increase over just the last two months. Other details also weren't as bad as the headline employment drop might suggest. Part-time employment dropped a whopping 137k — the largest one-month decline on record — but full-time jobs rose 49k. The unemployment rate ticked up to 5.9% but that was still just slightly above the 5.8% in December that matched the lowest reading on record since 1976. The rate is still down almost a percent from a year ago and more than that if sources of 'hidden' unemployment like discouraged workers are included.

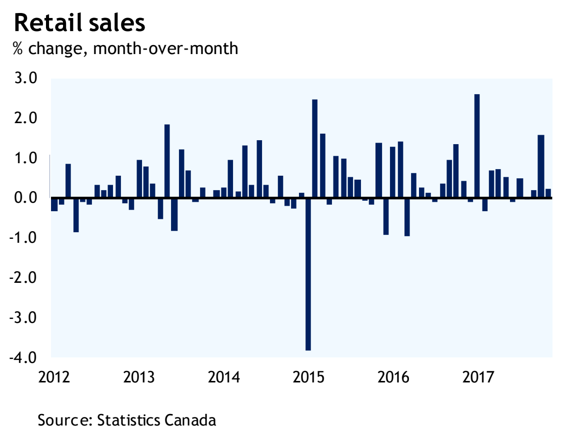


CANADIAN RETAIL SPENDING UP IN NOVEMBER

LATEST AVAILABLE: NOVEMBER

RELEASE DATE: JANUARY 25, 2018

Retail sales inched up 0.2% in November to build on a 1.6% jump in October. Part of the increase was due to sharp jump in gasoline prices that was responsible for most of a 6% jump in sales at the pump. Sales nonetheless rose a somewhat stronger 0.3% excluding the impact of prices — boosted by a 13% surge in sales at electronic & appliance stores. Statistics Canada noted that the increase in electronics sales in particular looked to have been boosted by new product launches and promotions like 'Black Friday' sales. That means some of the sales increase in November may prove to have been at the expense of sales in December and/or January.

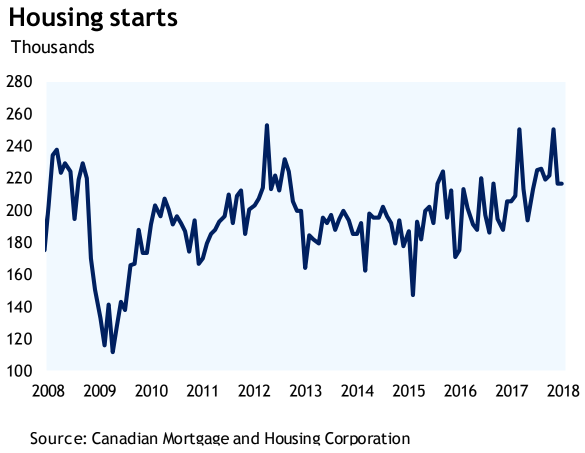


CANADIAN HOUSING STARTS REMAINED STRONG TO START 2018

LATEST AVAILABLE: JANUARY

RELEASE DATE: FEBRUARY 8, 2018

Housing starts came in a bit stronger than expected in January, holding steady at December's revised 216k annualized pace. Both single and multi-unit starts were little changed from the previous month. The six-month trend in starts edged up to a decade high of 227k. Housing starts remained volatile in Ontario, rebounding strongly in January after a sizeable dip in December. That offset declines in BC, Quebec and Atlantic Canada to start the year.

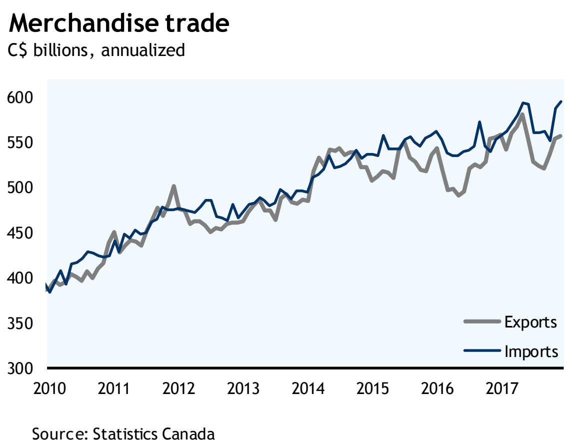


CANADA'S TRADE DEFICIT WIDENED TO $3.2 BILLION DECEMBER

LATEST AVAILABLE: DECEMBER

RELEASE DATE: FEBRUARY 6, 2018

Canada's nominal merchandise trade deficit widened to $3.2 billion in December from $2.7 billion in November. Exports increased 0.6% but that was outpaced by a 1.5% jump in imports that built on the already large 6.3% gain in November. The widening in the trade deficit was unexpected — markets were looking for a small improvement in December. The deterioration, though, was driven by increased domestic demand unexpectedly sending imports up 1.5% to build on the whopping 6.3% increase in November.



MORE MODEST FIRMING IN CANADIAN INFLATION IN DECEMBER

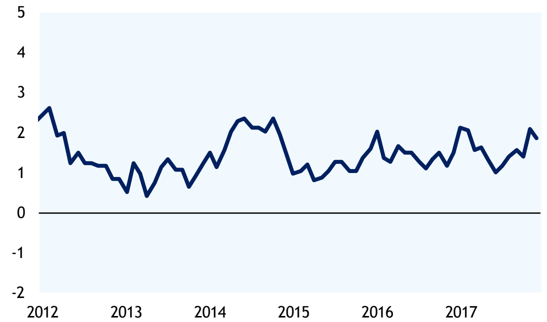
LATEST AVAILABLE: DECEMBER

RELEASE DATE: JANUARY 26, 2018

Headline CPI inflation eased to 1.9% from 2.1% in November but due almost entirely to a large monthly drop in energy prices. Excluding food & energy, year-over-year price growth dipped to 1.7% from 1.8% in November. The Bank of Canada's preferred 'core' measures ticked higher, on balance. Both the 'median' and 'trim' measures at 1.9% are essentially in line with the Bank of Canada's 2% inflation target.

Consumer price index

% change, year-over-year



Source: Statistics Canada

ECONOMY AT A GLANCE			
% change from:	Lastest month	Previous month	Year ago
Real GDP	Nov	0.4	3.5
Industrial production	Nov	1.2	4.7
Employment	Jan	-0.5	1.6
Unemployment rate*	Jan	5.9	6.7
Manufacturing			
Production	Nov	1.8	4.6
Employment	Jan	0.0	5.1
Shipments	Nov	3.4	6.0
New orders	Nov	-1.8	5.2
Inventories	Nov	0.9	7.6
Retail sales	Nov	0.2	6.5
Car sales	Nov	4.4	-0.8
Housing starts (000s)*	Jan	216.2	205.5
Exports	Dec	0.6	0.4
Imports	Dec	1.5	7.8
Trade balance ($billlions)*	Dec	-3.2	0.2
Consumer prices	Dec	-0.4	1.9

* Levels are shown for the latest period and the same period a year earlier.

Source: Statistics Canada, RBC Economics Research

FINANCIAL MARKETS

FAST TIMES AS RATES GO HIGH

Josh Nye

"The fixed income selloff wasn't confined to the US as bond yields in Canada, Germany and the UK all trended higher in January."

The extraordinarily low equity market volatility seen throughout 2017 ended abruptly in February as the VIX jumped to its second-highest level since the European debt crisis. Losing ground for two consecutive weeks, the S&P 500 entered correction territory falling more than 10% from its January 26 peak. Equity markets in Canada, Europe and around the globe also fell sharply in the past two weeks.

The drop-off in what many feared was an overvalued US equity market seemed to be triggered by rising bond yields. US treasuries sold off sharply to start 2018 with 10-year yields hitting four-year highs by early February. That move was more abrupt than anticipated but reflects a process we expected would unfold. Namely, with the US economy already bumping up against capacity limits and tax cuts set to push demand even higher, inflation risks are tilted to the upside for the first time in recent memory. Stronger wage growth in January seemed to underscore that for markets. With energy prices also picking up, market-based inflation expectations rose to three-year highs and put upward pressure on nominal yields. Investors are also waking up to the reality that the Fed has little reason to slow their tightening cycle amid strong growth momentum and potentially inflationary fiscal stimulus. The promise of increased Treasury supply to finance the tax cuts also played into the bump up in bond yields.

The fixed income selloff wasn't confined to the US as bond yields in Canada, Germany and the UK all trended higher in January. And those moves don't just reflect spillover from the States. The Bank of Canada remains in tightening mode despite Nafta concerns, while positive data in the euro area and UK has investors contemplating an end to ultra-accommodative monetary policy in Europe.

FINANCIAL MARKETS

US ECONOMY TURNED ON THE AFTERBURNERS IN Q4/17

Josh Nye

HIGHLIGHTS

- ▲ The recent bout of equity market volatility isn't expected to be sustained and doesn't change a solid US economic outlook for 2018.
- ▲ The dip in consumer savings in Q4/17 is not expected to persist.
- ▲ US wages are growing at their fastest pace since 2009 but still not at rates that would push inflation well beyond the Fed's target.
- ▲ New Fed Chair Jerome Powell inherited a strong US economy and we expect the Fed will raise rates in March despite the recent wobble in equities.

Headline US GDP growth slowed a touch to 2.6% in Q4/17 following back-to-back gains of more than 3% in Q2 and Q3. The composition was more favourable with domestic spending rising at a 4% annualized rate in Q4, the best pace in three years. That reflected impressive growth in consumer spending, a rebound in the residential sector following two quarters of decline, and another solid increase in business investment as companies continued to spend on machinery and equipment. Housing and consumer spending got a lift from post-hurricane rebuilding and the replacement of autos, although underlying fundamentals for both look solid as well. A pullback in inventory investment and a surge in imports that outpaced decent exports weighed on overall GDP growth. But the Q4 gain was still well ahead of the economy's longer run speed limit. All told, the US economy entered 2018 with solid momentum and is set to get a shot in the arm from tax cuts passed late last year. Our forecast assumes GDP growth will rise to 2.6% this year from 2.3% in 2017, with much of the pickup reflecting tax changes.

BUT ARE CONSUMERS BURNING THROUGH THEIR SAVINGS?

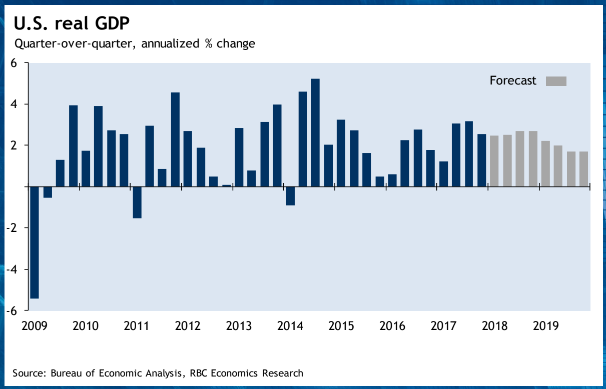
One eye-catching number in the latest national accounts was a further dip in the household savings rate, which at 2.6% in Q4/17, was the lowest in more than a decade. A lower savings rate isn't surprising given rising equity values and strong consumer confidence, but the recent dip has raised some concerns that consumers are close to being tapped out. We don't think that's the case. Even with personal savings expected to rebound somewhat this year, solid income growth—due to both rising wages and a boost to take home pay from lower taxes—will keep consumer spending volumes rising at a near-3% pace. Consumers have certainly been heavily relied upon for GDP growth in recent years, but given solid fundamentals, we think they'll come through again in 2018.

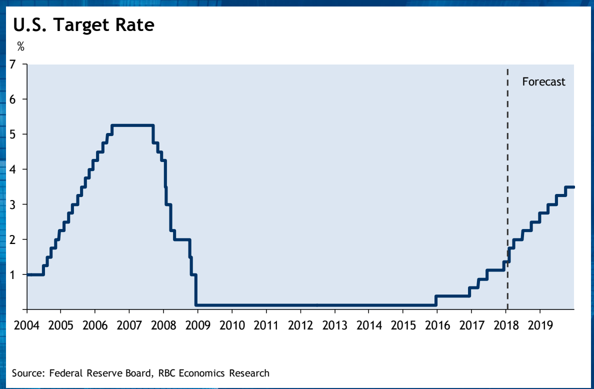
FINALLY SOME SIGNS OF LIFE IN US WAGES

2017 was another impressive year for the US labour market with average monthly job gains of 181k—well ahead of underlying demographic growth—pushing unemployment down to its lowest rate since 2000. The one missing piece was wage growth which remained stuck around 2-1/2%. But January's jobs report showed tentative signs that the story will be different this year. Wage growth picked up for a third consecutive month to 2.9% in January, the fastest year-over-year increase since 2009. That level shouldn't stoke fears of an imminent spike in inflation, but the recent increase certainly has investors thinking that tight labour market conditions are finally feeding through to labour costs, and eventually, will fuel higher consumer prices. That prospect has shifted market pricing, which now points to the Fed following through with plans to raise rates another three times this year.

CHAIR YELLEN HANDS OFF A STRONG ECONOMY

As expected, the Fed left interest rates unchanged on January 31—Chair Yellen's final meeting before Jerome Powell took over in early-February. Economic conditions are certainly strong enough to warrant higher interest rates, but in keeping with the gradual, predictable policy changes under her tenure, Yellen and company opted to leave fed funds unchanged and simply set the table for a move in March. We too look for a hike at the upcoming meeting and think a once-a-quarter pace of rate increases will continue through next year. Our call for four rate hikes this year remains slightly ahead of market pricing and the Fed's latest dot plot showing three hikes. In our view, any pause in tightening risks the Fed falling behind the curve at a time when tax cuts are set to push the economy into excess demand and could stoke inflation.





The central bank's latest meeting came before equity market volatility reared its head. But in comments since then, Fed officials didn't sound overly concerned about the stock market correction. We don't think the Fed's March rate hike will be derailed by volatility as policymakers focus on underlying strength in the US economy. We also doubt the new Chair will want to be seen as capitulating to investors' concerns about rising rates.

FINANCIAL MARKETS

CANADA'S ECONOMY GOT BACK ON TRACK IN NOVEMBER

Josh Nye

Canadian GDP growth rebounded to 0.4% in November following a flat reading in October. Goods production jumped as the weight from transitory shutdowns in the auto, energy and chemical manufacturing sectors were reversed. Services growth, which tends to be less volatile, also picked up in November. The increase is more in line with indications of strong employment growth toward the end of 2017. Our forecast assumes GDP growth ticked up to 1.9% in Q4/17 from 1.7% in the prior quarter. That would be slightly ahead the economy's longer-run potential growth but short of the Bank of Canada's 2.5% forecast—a number we were surprised to see held over from their previous projections given a soft start to the quarter.

HIGHLIGHTS

- ▲ Canada's economy returned to positive growth in November as a numbers of transitory factors reversed.
- ▲ Homebuyers rushed to get ahead of a regulatory change on January 1, leading to a sharp drop in resales to start the year.
- ▲ Businesses don't seem to be paralyzed by Nafta uncertainty. Neither was the Bank of Canada when they raised rates in January.
- ▲ The central bank sees a bit more slack in labour markets than headline unemployment and wage growth would suggest.

HOUSING CONTINUED ITS WILD RIDE AT THE TURN OF THE YEAR

Canada's housing market went on a wild ride through 2017 and the close of the year was no different. Home sales rose strongly in November and December, hitting a record high on a seasonally adjusted basis in the final month of the year. Homebuyers rushed into the market ahead of a regulatory change on January 1, 2018 that raised the qualifying rate on insured mortgages. Early data for the Greater Toronto Area market—the country's most volatile last year—showed a sizeable drop in sales in January after sales were pulled forward into 2017. When the dust settles we expect regulatory tightening, in combination with higher interest rates, will result in resales falling at a low single digit pace for a second consecutive year in 2018. Price growth is expected to be limited to just over 2% following a double-digit gain last year.

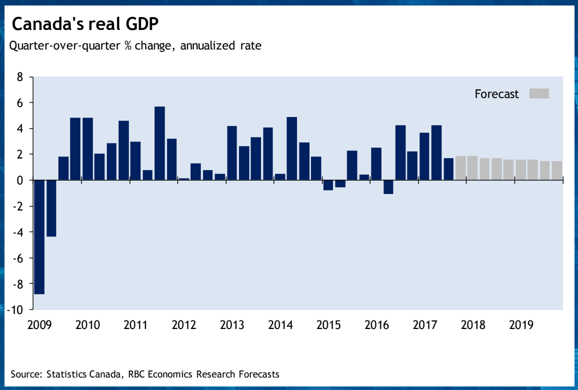
BOC CONTINUES TO HIKE DESPITE NAFTA CONCERNS

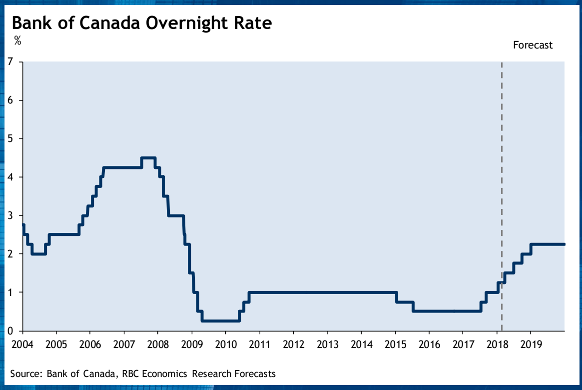
In the month leading up to the Bank of Canada's January meeting, solid economic data and a positive tone from Governor Poloz raised market expectations that the bank would hike rates to start 2018. They didn't disappoint, raising the overnight rate by 25 basis points to a post-crisis high of 1.25%. The central bank kept a fairly balanced tone in announcing their decision, noting recent indicators had generally outperformed expectations while emphasizing caution given risks surrounding the Nafta renegotiation. Their growth forecasts were little changed on balance despite adding a modest downward impact on business investment and exports related to Nafta uncertainty.

Even with that drag, stronger contributions from both sectors this year are expected to help offset more modest gains in consumer spending and housing. Growth of 1.8% on a Q4/Q4 basis in 2018 is still slightly ahead of their upwardly-revised 1.6% potential growth rate, implying the economy should continue to bump up against capacity limits this year.

But while product markets are close to full capacity, the bank continued to see signs of labour market slack—though they admitted that has been narrowing more quickly than expected in recent months. Their view partly hinges on wage growth, which despite picking up in the second half of last year, is still running a bit slower than would be expected if labour markets were pushing beyond capacity. The central bank unveiled a new wage measure that stood at 2.2% in Q4/17—below readings closer to 3% in the household and payroll surveys. This new wage reading as well as the bank's labour market indicator both point to a slightly less impressive jobs backdrop than official statistics and will be watched closely as a sign of how the Governing Council sees slack evolving.

While the bank held onto a not-too-hot, not-too-cold view, the reality of an economy operating close to full capacity with underlying inflation near 2% left their tightening bias intact. We think they'll continue raising rates once a quarter this year, pushing the overnight rate up to 2% by the end of the year. How much further they'll go from there is ques-





tionable—the bank noted some continued stimulus is likely to be required given headwinds from trade worries and regulatory changes, as well as increased sensitivity to rate hikes. As such, we expect the policy rate will move only marginally higher in 2019 before the bank pauses to assess the impact of past rate hikes.

FINANCIAL MARKETS

SURPRISINGLY HAWKISH SHIFT FROM THE BOE SETS UP FOR A MAY RATE

Josh Nye

HIGHLIGHTS

- ▲ The BoE clearly signaled that interest rates will move higher, and sooner, than markets were expecting.
- ▲ Meanwhile, euro area survey readings were at their best in a decade with strong readings across the bloc's four largest economies.
- ▲ Underlying inflation remains below the RBA's 2-3% target range and won't return to the midpoint in the near-term.
- ▲ New Zealand's central bank isn't likely to start raising rates anytime soon.

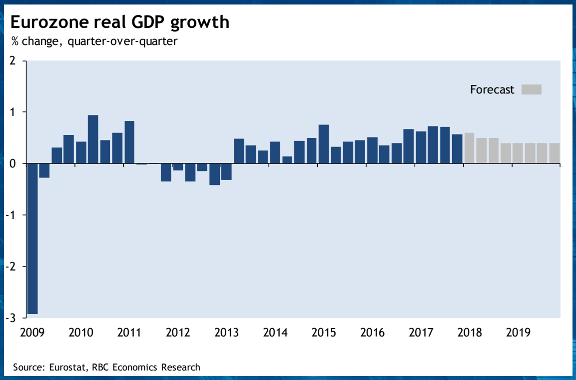
We previously expected the Bank of England would hold interest rates steady this year with the ongoing impact of Brexit uncertainty anticipated to keep economic activity relatively subdued. But a much more hawkish tone from the central bank in February has led us to revise our bank rate forecast—we now expect a rate hike in May, as well as two further increases next year. The BoE didn't mince words, indicating "monetary policy would need to be tightened somewhat earlier and by a somewhat greater extent" than the two hikes over three years markets were previously pricing in. That change in language was despite only modest upward revision to their GDP forecasts and few changes in the expected inflation profile. Rather, it was their characterization of economic slack that seemed to underpin the bank's shift. Growth is expected to outpace potential over the next few years, pushing the economy into excess demand. With survey data already pointing to faster wage growth this year, the concern is that tight conditions will put upward pressure on prices—leaving inflation above target even after currency effects have faded. We were a bit surprised by the timing of the central bank's hawkish turn, coming before more clarity on a Brexit transition deal emerges. And we still have concerns about the economic backdrop, which were reinforced by soft survey data in January. Nonetheless, it looks like the BoE is primed for a follow up to November's hike.

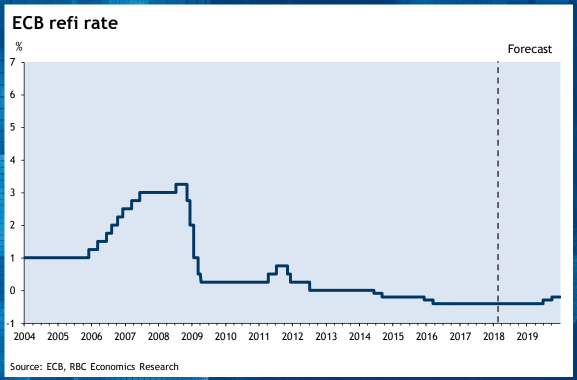
…WHILE THE ECB REMAINS IN EASING MODE DESPITE MOMENTUM

Euro area GDP was up 0.6% in Q4/17, marking a fifth consecutive quarter of above-potential growth. Early indicators point to momentum continuing to build at the start of 2018. January's composite purchasing managers' index rose for a third straight month, hitting its highest level in more than a decade thanks to further improvement in the services sector. Along with rising new orders and business sentiment, some of the recent strengthening has also been due to higher input and output prices—a welcome development for the European Central Bank given persistently soft inflation readings. The ECB made no changes to monetary policy or forward guidance in January but given the improving economic backdrop there is growing expectation that their language could shift as soon as the March meeting. While current guidance suggests asset purchases will continue until September 2018, "or beyond," it looks like net purchases might not extend into 2019. But with a pledge to keep interest rates at present levels well past the horizon of net asset purchases, we continue to expect the ECB will hold off on raising rates until the second half of 2019—later than markets are currently pricing.

RBA MAINTAINS A POSITIVE TONE BUT ISN'T LIKELY TO HIKE NEAR TERM

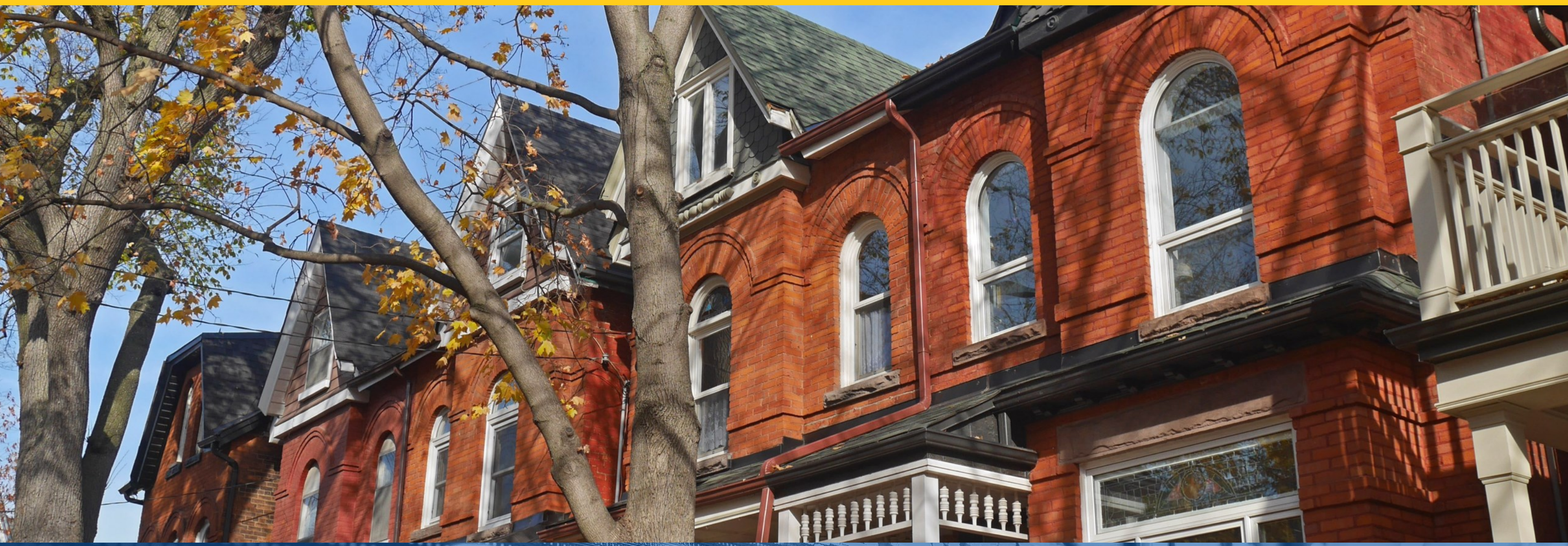
Following their two-month break, the Reserve Bank of Australia left monetary policy unchanged in early February. The central bank once again struck a relatively upbeat tone, noting stronger global growth and a decent domestic outlook albeit with some concerns about housing and consumption. Policymakers seem a bit more confident in their forecasts for above-trend growth and on-target inflation over the medium term. But they also suggested further progress in reducing unemployment and returning inflation to target is likely to be gradual. Indeed, the latest inflation readings showed headline and core CPI persisting below the RBA's 2-3% target at the end of last year. And while underlying inflation appears to have troughed, there are few signs of upward momentum and prices aren't likely to accelerate amid slow wage growth. So even as the central bank's tone improves, they're unlikely to start normalizing monetary policy until they have more confidence that slack is being absorbed, wage pressures are rising and underlying inflation is heading toward the middle of the central bank's target range. We continue to see the cash rate on hold this year.





RBNZ BUCKING THE GLOBAL TREND, STAYING FIRMLY ON THE SIDELINES

The Reserve Bank of New Zealand left their cash rate unchanged at 1.75% in February and continued to note that monetary policy will remain accommodative "for a considerable period." They marked down their near term GDP projections after growth slowed in the second half of 2017, but activity is seen picking up a bit more later this year with help from both fiscal and monetary stimulus. Their inflation profile was lowered, due in part to a softer starting point, with CPI not expected to return to 2% on a sustained basis until 2020. We agree that domestic inflationary pressures will be slow to materialize and think a further period of steady monetary policy is in order. Look for the cash rate to remain unchanged again this year.



CURRENT ANALYSIS

MONTHLY HOUSING MARKET UPDATE

ROBERT HOGUE

PAYBACK TIME! CANADA'S HOUSING MARKET QUIETS DOWN POST B-20 CHANGES IN JANUARY AFTER BUSY END TO 2017

- Both buyers and sellers reacted strongly in January to the B-20 guideline changes. Home resales in Canada fell sharply by 14.5% from December and new listings plummeted by 21.6% on a seasonally-adjusted basis.
- Declines were generalized across the country—providing compelling evidence that tighter qualifying rules for uninsured mortgages had a widespread impact.
- It's too early to tell whether the new rules dampened homebuyer demand permanently or just displaced activity temporarily. We think it's both.
- Benchmark prices continued to slow their pace of increase, easing from 9.2% in December to 7.7% in January. The Toronto area accounted for most of this deceleration. Prices accelerated in Vancouver.
- Interestingly, demand-supply conditions tightened overall in Canada in January because new listings fell more than sales. This was the case in the Toronto, Vancouver and Montreal areas.
- Developments in January are consistent with our view that we've entered a period of payback for transactions brought forward late last year ahead of the new mortgage rule. Our outlook for 2018 calls for a second-consecutive modest annual decline in resales and sharp moderation in price appreciation.

It would be natural to focus on the sharp 14.5% monthly drop in home resales in January that the Canadian Real Estate Association reported today. It certainly adds weight to rampant speculations that the tighter qualifying rules for uninsured mortgages that came into effect on January 1 would temper homebuyer demand in Canada. But perhaps even more noteworthy was the fact that new listings plummeted by 21.6% in January to an eight-year low. It suggests that supply restraint might have played a big part of the slowdown in activity in January. Fewer homes being put out for sale limit the kind of activity that can take place. We see two main reasons for sellers moving to the sidelines. 1) Many of them rushed to list their properties in November and December ahead of the new B-20 changes. New listings reached a seven-year high in December on a seasonally-adjusted basis. This likely brought forward properties that would have been offered for sale in the early part of 2018. 2) Other sellers might have feared a significant buyer pullback post-B-20 changes and opted to wait and see the market's reaction to the new rules.

FORECAST DETAIL - CANADA

RBC FORECASTS OF THE ECONOMY AND FINANCIAL MARKETS

= Forecast

	2017				2018				2019				Annual			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2016	2017	2018	2019
GROWTH IN THE ECONOMY PERIOD-OVER-PERIOD ANNUALIZED PERCENT CHANGE UNLESS OTHERWISE INDICATED																
Household consumption	3.7	5.0	4.0	2.2	1.5	1.4	1.4	1.5	1.4	1.3	1.3	1.4	2.4	3.7	2.2	1.4
Durables	11.0	9.8	4.2	2.3	1.5	1.3	1.3	1.3	1.3	1.2	1.2	1.1	4.5	7.3	2.4	1.3
Semi-Durables	2.6	8.5	2.1	3.2	1.4	1.3	1.4	1.5	1.4	1.2	1.4	1.4	2.2	3.9	2.2	1.4
Non-durables	2.2	6.5	1.6	3.0	1.4	1.3	1.3	1.5	1.4	1.3	1.3	1.4	1.7	2.9	2.0	1.4
Services	2.8	2.9	5.3	1.8	1.7	1.5	1.5	1.6	1.4	1.4	1.3	1.4	2.2	3.1	2.1	1.4
Government expenditures	1.0	4.0	3.0	1.5	2.5	2.5	2.5	2.5	2.0	2.0	2.0	2.0	2.2	1.8	2.5	2.2
Residential investment	11.7	-3.6	-1.4	10.0	-3.6	-6.1	-8.8	-6.1	-1.7	0.9	2.1	2.0	3.3	3.1	-2.2	-2.6
Business investment	10.6	8.2	3.7	8.1	2.8	2.8	2.3	2.1	2.0	2.0	2.0	2.0	-9.4	1.8	4.1	2.1
Non-residential structures	0.5	9.1	2.2	1.0	2.8	2.8	2.5	2.2	2.0	2.0	2.0	2.0	-11.5	-1.2	2.7	2.1
Machinery & equipment	28.1	6.8	6.1	19.0	2.8	2.8	2.0	2.0	2.0	2.0	2.0	2.0	-6.0	6.4	6.1	2.0
Final domestic demand	4.0	4.2	3.7	3.3	1.5	1.3	1.1	1.3	1.4	1.5	1.6	1.6	1.1	3.0	2.2	1.4
Exports	2.4	6.1	-10.2	3.0	4.0	3.5	2.5	2.5	3.3	1.7	1.8	2.0	1.0	0.9	1.7	2.5
Imports	13.7	6.6	-0.2	4.8	1.2	2.2	1.0	1.5	2.5	1.5	2.1	2.5	-1.0	3.4	2.2	1.9
Inventories (change in $b)	10.8	11.9	17.1	13.1	10.7	11.0	11.9	11.9	11.9	11.8	11.8	11.8	1.0	13.2	11.4	11.8
Real gross domestic product	3.7	4.3	1.7	1.9	1.9	1.7	1.7	1.6	1.6	1.6	1.5	1.5	1.4	2.9	1.9	1.6
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	2.1	2.2	0.7	0.3	-0.3	0.1	0.8	1.2	0.9	0.9	0.9	0.8	0.6	1.3	0.4	0.9
Pre-tax corporate profits	25.8	35.7	14.6	7.2	2.2	1.1	0.9	-1.0	-3.9	-1.3	-0.5	-0.5	-1.9	19.9	0.8	-1.6
Unemployment rate (%)*	6.6	6.5	6.2	6.0	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.9	7.0	6.3	5.9	5.9
Inflation																
Headline CPI	1.9	1.3	1.4	1.8	1.9	2.2	2.3	2.0	1.7	2.0	2.1	2.0	1.4	1.6	2.1	1.9
Core CPI	2.0	1.4	1.4	1.6	1.6	1.9	2.2	2.2	2.1	2.1	2.0	2.0	1.9	1.6	2.0	2.0
External trade																
Current account balance ($b)	-54.5	-62.3	-77.4	-76.3	-61.8	-66.0	-64.7	-62.1	-59.2	-56.8	-55.2	-54.2	-65.4	-67.6	-63.7	-56.4
% of GDP	-2.6	-2.9	-3.6	-3.5	-2.8	-3.0	-2.9	-2.8	-2.6	-2.5	-2.4	-2.3	-3.2	-3.2	-2.9	-2.5
Housing starts (000s)*	222	207	223	229	211	201	187	182	184	184	185	185	198	220	195	185
Motor vehicle sales (mill., saar)*	2.09	2.10	2.08	2.05	2.05	2.00	1.98	1.97	1.94	1.93	1.92	1.92	1.72	2.08	2.00	1.93
INTEREST AND EXCHANGE RATES %, END OF PERIOD																
Overnight	0.50	0.50	1.00	1.00	1.25	1.50	1.75	2.00	2.25	2.25	2.25	2.25	0.50	1.00	2.00	2.25
Three-month	0.52	0.71	1.00	1.06	1.20	1.45	1.70	2.05	2.25	2.15	2.15	2.15	0.46	1.06	2.05	2.15
Two-year	0.75	1.10	1.52	1.69	1.75	2.05	2.25	2.45	2.60	2.50	2.40	2.30	0.75	1.69	2.45	2.30
Five-year	1.12	1.40	1.75	1.87	2.00	2.30	2.55	2.75	2.90	2.85	2.85	2.80	1.12	1.87	2.75	2.80
10-year	1.62	1.76	2.10	2.04	2.20	2.50	2.75	2.95	3.10	3.10	3.05	3.05	1.71	2.04	2.95	3.05
30-year	2.30	2.14	2.47	2.27	2.45	2.75	3.05	3.15	3.25	3.25	3.30	3.30	2.31	2.27	3.15	3.30
Canadian dollar	1.33	1.30	1.25	1.26	1.28	1.26	1.24	1.22	1.24	1.26	1.27	1.28	1.34	1.26	1.22	1.28

*Quarterly averages, level

Source: Bank of Canada, Statistics Canada, RBC Economics Research forecasts

FORECAST DETAIL - UNITED STATES

RBC FORECASTS OF THE ECONOMY AND FINANCIAL MARKETS

= Forecast

	2017				2018				2019				Annual			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2016	2017	2018	2019
GROWTH IN THE ECONOMY PERIOD-OVER-PERIOD ANNUALIZED PERCENT CHANGE UNLESS OTHERWISE INDICATED																
Consumer spending	1.9	3.3	2.2	3.8	2.8	3.2	3.2	2.7	2.3	1.9	1.8	1.8	2.7	2.7	3.1	2.4
Durables	-0.1	7.6	8.6	14.2	3.3	3.5	4.5	2.8	2.3	1.8	1.6	1.6	5.5	6.7	6.3	2.5
Non-durables	1.1	4.2	2.3	5.2	3.5	4.8	4.5	3.5	2.5	2.0	1.8	1.8	2.8	2.4	4.1	2.8
Services	2.5	2.3	1.1	1.8	2.5	2.6	2.6	2.5	2.3	1.9	1.8	1.8	2.3	2.2	2.2	2.2
Government spending	-0.6	-0.2	0.7	2.9	0.6	0.4	0.4	0.6	0.8	0.8	0.8	0.8	0.8	0.1	0.9	0.7
Residential investment	11.1	-7.3	-4.7	11.7	6.0	3.7	3.8	3.4	1.8	0.9	1.9	1.2	5.5	1.7	3.9	2.3
Business investment	7.1	6.7	4.7	6.8	3.9	5.5	6.5	5.7	2.8	2.8	2.6	2.6	-0.6	4.7	5.4	3.9
Non-residential structures	14.8	7.0	-7.0	1.4	2.0	4.0	6.5	5.2	4.0	4.0	2.0	2.0	-4.1	5.3	2.1	4.1
Non-residential equipment	4.4	8.8	10.8	11.4	4.8	6.3	7.2	6.5	3.5	3.5	0.7	0.1	-3.4	4.8	7.7	4.1
Intellectual property	5.8	3.7	5.2	4.5	4.0	5.3	5.2	5.0	4.8	3.6	2.6	2.6	6.3	4.2	4.7	4.3
Final domestic demand	2.4	2.7	1.9	4.3	2.7	3.0	3.1	2.8	2.3	1.9	1.6	1.5	2.1	2.5	3.0	2.3
Exports	7.3	3.5	2.1	6.9	4.0	2.8	3.2	3.2	3.0	2.8	2.8	2.8	-0.3	3.4	3.9	3.0
Imports	4.3	1.5	-0.7	13.9	5.5	6.8	6.6	4.5	4.3	2.1	2.1	2.3	1.3	3.9	6.3	3.9
Inventories (change in $b)	1.2	5.5	38.5	9.2	11.0	15.0	16.0	20.0	28.0	28.0	28.0	33.0	33.4	13.6	15.5	29.3
Real gross domestic product	1.2	3.1	3.2	2.6	2.5	2.5	2.7	2.7	2.2	2.0	1.7	1.7	1.5	2.3	2.6	2.2
OTHER INDICATORS YEAR-OVER-YEAR PERCENTAGE CHANGE UNLESS OTHERWISE INDICATED																
Business and labour																
Productivity	1.1	1.3	1.5	0.8	1.2	1.2	0.7	1.3	1.3	1.2	1.1	0.9	0.1	1.2	1.1	1.1
Pre-tax corporate profits	3.3	6.4	5.4	4.0	6.8	6.7	3.2	2.6	2.7	2.5	1.9	1.4	-2.1	4.7	4.8	2.1
Unemployment rate (%)*	4.7	4.3	4.3	4.1	4.1	4.1	3.9	3.8	3.8	3.8	3.8	3.8	4.9	4.4	4.0	3.8
Inflation																
Headline CPI	2.5	1.9	2.0	2.1	2.0	2.3	2.1	1.6	1.4	1.7	2.0	2.1	1.3	2.1	2.0	1.8
Core CPI	2.2	1.8	1.7	1.8	1.7	2.1	2.1	2.1	2.0	2.1	2.1	2.1	2.2	1.8	2.0	2.1
External trade																
Current account balance ($b)	-454	-498	-402	-458	-486	-509	-535	-551	-567	-568	-570	-572	-452	-453	-520	-569
% of GDP	-2.4	-2.6	-2.1	-2.3	-2.4	-2.5	-2.6	-2.7	-2.7	-2.7	-2.7	-2.7	-2.4	-2.3	-2.6	-2.7
Housing starts (000s)*	1238	1167	1172	1251	1275	1285	1300	1315	1315	1315	1325	1325	1177	1207	1294	1320
Motor vehicle sales (millions, saar)*	17.1	16.8	17.1	17.7	17.3	17.4	17.5	17.5	17.5	17.6	17.6	17.6	17.5	17.1	17.4	17.6
INTEREST AND EXCHANGE RATES %, END OF PERIOD																
Fed funds	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.50	2.75	3.00	3.25	3.50	0.75	1.50	2.50	3.50
Three-month	0.76	1.03	1.06	1.39	1.55	1.80	2.05	2.30	2.55	2.80	3.05	3.30	0.51	1.39	2.30	3.30
Two-year	1.27	1.38	1.47	1.89	2.10	2.35	2.55	2.75	3.00	3.25	3.40	3.55	1.20	1.89	2.75	3.55
Five-year	1.93	1.89	1.92	2.20	2.50	2.70	2.90	3.05	3.25	3.45	3.55	3.65	1.93	2.20	3.05	3.65
10-year	2.40	2.31	2.33	2.40	2.80	3.00	3.15	3.30	3.45	3.60	3.70	3.75	2.45	2.40	3.30	3.75
30-year	3.02	2.84	2.86	2.74	3.20	3.35	3.50	3.60	3.70	3.75	3.80	3.85	3.06	2.74	3.60	3.85
Yield curve (10s-2s)	113	93	86	51	70	65	60	55	45	35	30	20	125	51	55	20

*Quarterly averages, level

Source: Bank of Canada, Statistics Canada, RBC Economics Research forecasts December 2016

CANADA - US COMPARISONS

CURRENT ECONOMIC INDICATORS

	FROM PRECEDING MONTH	FROM YEAR AGO	YEAR-TO-DATE	LATEST MONTH	FROM PRECEDING MONTH	FROM YEAR AGO	YEAR-TO-DATE	LATEST MONTH
Business								
Industrial production*	1.2	4.7	1.4	Nov.	0.9	3.6	-0.1	Dec.
Manufacturing inventory - shipments ratio (level)	1.4	1.4	1.4	Nov.	1.4	1.4	1.4	Dec.
New orders in manufacturing	-1.8	5.2	0.3	Nov.	1.7	8.4	-1.3	Dec.
Business loans - Banks	2.1	7.4	7.0	Dec.	0.2	1.2	7.1	Jan.
Index of stock prices**	-1.6	3.7	1.9	Jan.	4.7	22.6	8.9	Jan.
Households								
Retail sales	0.2	6.5	5.0	Nov.	0.4	5.4	3.1	Dec.
Auto sales	4.4	-0.8	3.3	Nov.	-5.4	-12.9	-7.7	Jan.
Total consumer credit***	0.5	5.7	3.9	Dec.	0.5	5.4	5.1	Dec.
Housing starts	0.0	5.2	5.5	Jan.	-8.2	-6.0	5.9	Dec.
Employment	-0.5	1.6	1.2	Jan.	0.3	1.5	1.6	Jan.
Prices								
Consumer price index	-0.4	1.9	1.4	Dec.	0.2	2.1	1.22	Dec.
Producer price index****	-0.1	2.2	0.8	Dec.	0.0	3.3	0.0	Dec.
Interest rates								
Policy rate	1.1	0.5	1.1	Jan.	1.4	0.6	1.4	Jan.
90-day commercial paper rates	1.6	0.9	1.6	Jan.	1.6	0.8	1.6	Jan.
Government bonds - (10 years)	2.2	1.8	2.2	Jan.	2.6	2.4	2.6	Jan.

Seasonally adjusted % changes unless otherwise indicated. Interest rates are levels.

*The U.S. series is an index.

**Canada = S&P/TSX; United States = S&P 500

***Excludes credit unions and caisses populaires

****Canada's producer price index is not seasonally adjusted